FDC Economic Bulletin

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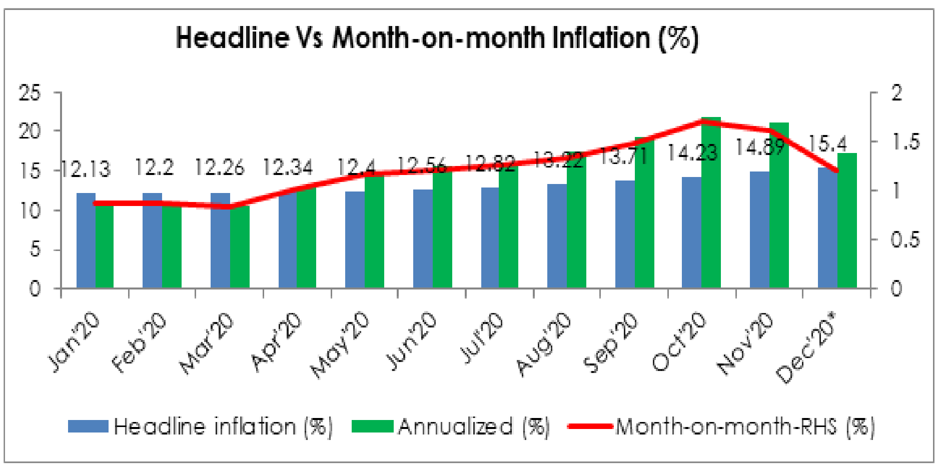
Headline inflation to continue its runaway trend in December 2020

Headline inflation, a hydra-headed monster that has eroded the disposable and discretionary income of consumers, is estimated to increase by 0.51% to 15.4% in December 2020. This will be the highest level in 37 months, driven mostly by forex rationing, output and productivity constraints, higher logistics and distribution costs.

The cheery news is that the rate of increase in the general price level is expected to decelerate. This could imply that the re-opening of the land borders and the harvest of commodities such as tomatoes and onions is beginning to taper pricing pressures. Our survey also reveals a decline in the month-on-month inflation to 1.2% (annualized 16.71%) from 1.6% (annualized 21.17%) in November.



[1]

2020 was a bleak Christmas

Our December survey shows a strong seasonality factor pushing demand especially for festivity-sensitive goods such as rice, turkey, vegetable oil and chicken. Traders and manufacturers took advantage of this to increase commodity prices but not as much as in the previous year. This is largely because of weak aggregate demand in 2020 relative to 2019. Consumer disposable income has been negatively affected by the hike in electricity tariffs, general reductions in subsidies and improved tax mobilization. The breakdown of

[1] NBS, FDC Think Tank

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https://m.me/ubachatbanking *Leo@ubagroup.com* *CFC (+234-1-2807400)* the findings shows a mixed movement in commodity prices. While the price of tomatoes, onions and rice declined, items such as palm oil, noodles, chicken and turkey recorded price increases. Hence, food inflation is expected to rise at a slower pace to 18.5% in December. The increase in the domestic food basket is in line with the FAO food price index, which rose by 2.2% to 107.5 points in December, mainly due to higher cost of dairy and vegetable oils.

The non-food component of the inflation basket also increased, reflecting the impact of exchange rate devaluation and higher logistics costs.

Low interest rate environment: Impact on consumption

Typically, low interest rates dis-incentivize savings and serve as an incentive to consume. This is because the proportion of income that is not saved is usually consumed. However, it was observed that while the artificially low interest rates significantly affected investors especially at a time of galloping inflation, its impact on consumption was muted as lending rate remained sticky downwards.

Recovery trajectory faster in countries with interest rates above rate of inflation

Inflation across the SSA region is more to the upside in December 2020. This was largely due to an increase in the prices of food and alcoholic beverages. However, a noticeable trend is that countries that maintain interest rates higher than the rate of inflation tend to have a faster pace of economic recovery and sustainable macroeconomic stability. South Africa for instance, recorded an improvement in its growth rate to -6.1% in Q3'20 from -17.1% in Q2'20.

Country	December Inflation (%)		December Policy rate (%)	
Nigeria	15.40 (forecast)	↑	11.50 (Nov)	↔
Angola	24.90 (Nov)	↑	15.50 (Nov)	↔
Kenya	5.62	↑	7.00 (Nov)	↔
South Africa	3.20 (Nov)	↓	3.50 (Nov)	↔
Ghana	9.80 (Nov)	↓	14.50 (Nov)	↔
Uganda	3.60	↓	7.00	↔
Zambia	19.20	↑	8.00[2] (Nov)	↔

[2]

[2]Trading Economics, FDC Think Tank

Concluding thoughts

The CBN target rate for inflation is 6-9%. The projected rate of inflation (15.4%) will be 6.4% higher than the ceiling. This inflation rate will be a major consideration in the determination of the stance and the level of the monetary policy rate (MPR) at a crucial meeting of the MPC in January. The CBN has maintained in its rhetoric that an inflation rate above 12% is growth retarding.